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Universality, market justice, wasteful government: the legitimacy of tax cuts on higher incomes in the United States 1981-2001

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1. Introduction

Throughout the Western world governments have lately limited redistribution in their tax systems by lowering corporate taxes, top personal income taxes, wealth taxes, estate taxes and property taxes (Atkinson & Piketty 2010). The country that has gone the furthest in cutting taxes has been the United States, where the two most sizeable reforms by Ronald Reagan and George W. Bush contributed to a dramatic rise in income and wealth inequality (Piketty & Saez 2006, 3). In response to these developments, comparative institutionalism and economic sociology scholarship on the ideational origins of these reforms thrived (Blyth 2002; Fourcade-Gourinchas & Babb 2002; Hirschman & Popp Berman 2014; Mudge 2008; Mizruchi 2013). Despite employing diverse sets of theoretical approaches and methodologies, most of these studies focused on the economics profession as the main ideational channel through which the new paradigm arrived in the political realm.

The aim of this paper is to explain the impact of legitimation practices on the acceptance of heightened inequality in the tax system. I derive the general concept of legitimation practices from Schmidt (2006, 319) as acts of ideational and discursive work conducted by policy makers in a coordinative discourse in parliament by the use of 'cognitive arguments that justify in terms of expert knowledge and normative arguments that legitimate through appeals to societal values'. With Fraser (2015) I arrive at an argument about the historical contingency of legitimation practices. Fraser finds that the current pressures on the state to empower globalised financial capitalism have worsened a contradiction between the state's post-war functions as a guarantor of social and ecological protection and capitalist interests for liberalization. Discursive practices are central in resolving the specific contradictory pressures of a downward trend in the taxability of capital and the revenue need of the state to satisfy public demands for the maintenance of social security (Fraser 2015, 173). Streeck (2011, 23) also situates an investment strike of capital at the core of this contradiction and poses the following riddle: 'Now the issue is how far states can go in imposing the property rights and profit expectations of the markets on their citizens, while avoiding having to declare bankruptcy and protecting what may still remain of their democratic legitimacy'.

This paper analyses justifications in the U.S. Congress at different points in time. It illustrates a shift from rational arguments based in growth theories to a greater relevance of normative concepts, among which universality, market justice and anti-government concepts became important means of persuasion in support of the tax cuts. I trace this change back to a strategic use of concepts by the tax-cutting administrations. I show that governments engaged in trial and error with respect to the pervasiveness of concepts to legitimate a pre-defined goal to reduce taxation on top incomes and corporations. This argument challenges accounts of historical institutionalism and economic sociology which situate the power of ideas and values mostly in the authority of economists. Instead, justifications should be understood as tools of governance which bridge imperatives of capital dependence external to the state and Congressional support for capital friendly reforms.

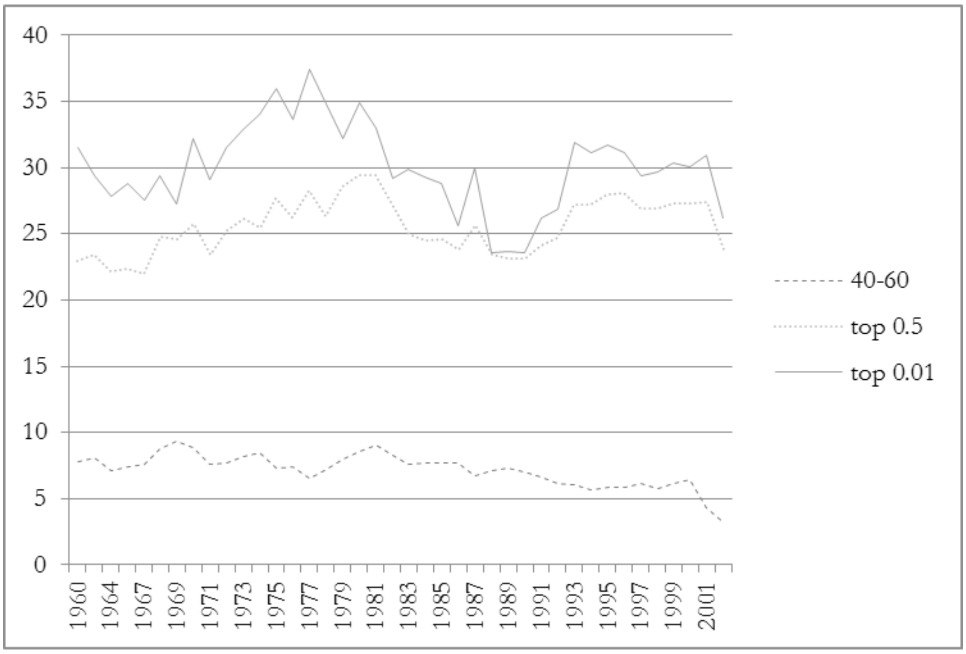
We know relatively little about the process of persuasion by which governing actors transfer paradigm shifts to the Congressional realm. This paper traces this process step by step. Reagan's early attempt to convince the opposition of tax cuts by instrumental reason and economic growth theories was met with overt resistance by the Democratic

Party. The Democrats rejected the new supply-side paradigm on the grounds of Keynesian growth theory as well as vertical tax justice concepts such as compensation for the poor and ability to pay. Over time, the Democratic Party let go of vertical justice concepts and increasingly embraced tax cuts by raising horizontal tax justice concepts such as universality. This ideational shift and the growing agreement on normative arguments for tax cuts followed from a learning process by the Reagan and the Bush administrations in how to adopt popular normative narratives of universality, market justice and wasteful government statements. These concepts helped to reclassify tax policy merely as a field of economic policy making, moving it away from social policy ideas and reallocating the authority of interest groups in the field from particularistic and small interest groups, such as women's organisations, trade unions and the National Association for the Advancement of Colored People (NAACP), to analytical research institutes.

2. Legitimacy and expert authority revisited

The paradigm shift in American economic policy from the post-war growth model of commercial Keynesianism, which combined capital-intensive mass production, mass consumption and high progressivity in the tax system, to neoclassical supply-side tax cuts in the early 1980s is often characterised as the 'Reagan revolution' (Blyth 2002; Kingdon 1984). What was revolutionary were not only the material consequences of significant increases in inequality that resulted from tax cuts for higher incomes and corporations, but also the rhetoric which the Reagan administration used to justify the paradigm shift. Explicitly building on the economic theorems of supply-side economists, Reagan insisted to Congress and American voters that reduced progressivity enhanced incentives to work and save, generated economic growth and was accordingly in everybody's interest (Blyth 2002, 159; Prasad 2012b, 362). Following Reagan's first reform, four tax cuts dramatically reduced progressivity in the American federal income tax system by directing extreme cuts to the very high incomes of the top 0.01 per cent of American income earners. The two most relevant reforms in this respect were Reagan's first reform, the Economic Recovery Tax Act (ERTA) of 1981, and George W. Bush's Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001. Both acts cut income taxes across the board, but accrued much greater benefits to top earners, while giving minor reductions to lower and average incomes. The redistributive result was that the average American paid the same share of federal income tax on each dollar earned, whereas top incomes gained from a reduction of the effective average income tax rate from 35 per cent to 25 per cent (see Figure 1). Reagan cut the top personal income tax rate from 70 to 50 per cent and reduced the general capital gains tax cut from 28 to 20 per cent in 1981; Bush cut the top rate from 39.5 to 35 per cent, reduced capital gains taxes on five-year property and stock capital from 10 to 8 per cent and allowed for greater deductions on savings in individual retirement accounts (IRA), all of which largely went to the top 0.01 per cent of incomes. Aside from reductions in income taxes, estate and property tax cuts liberated wealth from high levies (Davis 2009, 3; Morgan 2009, 188; Martin 1991, 12).

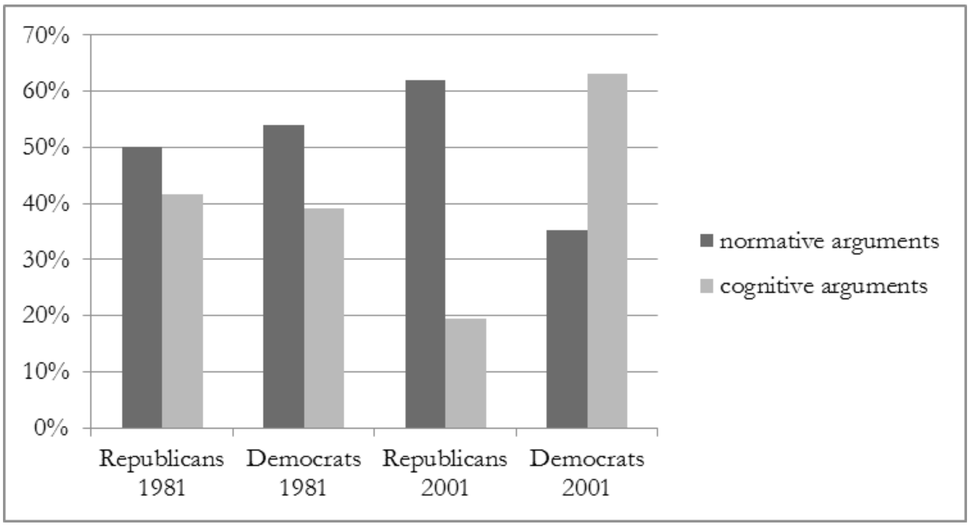
Figure 1 – Percentage of Average Federal Individual Income Taxes for Different Income Groups in the US, 1960-2005



Average effective income tax rates measure the percentage of federal taxes each income group pays in individual income. The middle class is measured as the middle quintile, i.e. 40 to 60 percentiles. Income groups are ranked by their relative position in total societal gross household income and each group entails the same number of individuals, i.e. one fifth of the total number of individuals. Sources: own calculations from Piketty & Saez (2006) data.

How did policy makers justify the growing inequality in the tax system in Congressional debates? When analysing the arguments used by Republicans and Democrats in Congress at two points in time, as Figure 2 does for tax debates in 1981 and 2001 and as will be further dissected in the next section, we find that Republicans increasingly let go of cognitive arguments such as growth theories and budget constraints and adopted normative arguments of horizontal tax justice and market justice. Democrats, by comparison, used a growing share of cognitive arguments about balancing the budget and let go of normative arguments of social justice.

Figure 2 – Percentage of Normative versus Cognitive Frames in Total Frames used by Democrats and Republicans in debates in 1981 and 2001



This is the share of arguments raised in each category to the total number of justifications each party used in each point in time; note: coding units may appear more than once if they refer to more than one argument. Source: own coding and calculations of the entire debates in Congress and the Senate on the ERTA tax reform of 1981 and the EGTRRA reform of 2001.

Existing scholarship in historical institutionalism and neoliberalism provides little explanation of such a trend in tax cut narratives. Even though the recent emergence of theories of discursive institutionalism imply that political scientists increasingly integrate ideas as relevant factors for institutional change, their main focus remains on the role of public choice theorists, supply-side economists and their power in epistemic communication, i.e. the communication of policy makers and academic experts. So far, institutionalism has not investigated how these academic theories were transformed into popular projects in the U.S. Congress. Institutionalists show how think-tanks, economic experts and the financial press disseminated facets of the supply-side paradigm in policy circles through their increasingly powerful position in American economics faculties since the 1970s. Together, the American Enterprise Institute (AEI), the Heritage Foundation, the financial press and supply-side economists organised events and made contact with policy makers in ways which transferred their theories into Reagan's inner circle (Blyth 2002; Prasad 2012b). These dense networks of economists and governing actors shared monetarist, supply-side and public choice ideas and promoted the new ideas by giving each other platforms on which to write and talk about the new growth theory (Mudge 2008; Mirowski & Plehwe 2009; Schmidt & Thatcher 2013). Some authors in this literature field argue that, ultimately, American businesses were responsible for the dissemination of the supply-side paradigm because they provided funding for key institutions such as the AEI and the Heritage Foundation (Blyth 2002; Mizruchi 2013). Those think-tanks were by and large financed by businesses and political groups which had been increasingly dissatisfied with the federal bureaucracy, the politics of the Nixon Presidency and the influence of liberal interest groups in Washington and consequently began influencing conservative thinking in Washington by funding their own think-tanks in the district. This literature has made important contributions to the knowledge of how ideas influence politics, but it does not explain how these academic theories convinced congressmen.

One branch of economic sociology also looked at the influence of the economics profession on economic policy making and the evolution of heightened beliefs in markets since the 1980s. Scholars have showed that a group of neoliberal or supply-side economists, which had little influence on academia and politics in the 1970s, realised sudden and significant authority gains during the 1980s through the growing strength of the network of economists at American universities and a snowball effect of first-generation supply-siders educating a large group of successors who then took up key positions in academic advisory boards within governments (Fourcade & Healy 2007; Fourcade 2009). Advertisers, management gurus, marketing people and public opinion experts additionally developed a language of individualism and self-sufficiency in markets which led to a growing belief that markets generated the best solutions in economic matters (Frank 2000). This body of literature also showed how international organisations disseminated neoliberal theories to governments in the global South and enforced a number of practices on local administrations (Fourcade-Gourinchas & Babb 2002; Mudge 2008). In most of these approaches, the power of the supply-side paradigm is situated in a powerful epistemic community which convinced the staff of the administration of the validity of the new economic policy ideas. However, this epistemic discourse contrasts starkly with the modes of communication in Congress, as historical accounts of political debates have shown (e.g. Rodgers 2011).

Some economic sociologists have looked into the Congressional reception of economic theory and have argued that economists' influence is conditional on the character of the policy field and the focus of the debate in Congress. The influence of economists is strongest, those scholars argued, in technical areas and limited if a policy field is highly politicised (Hirschman & Popp Berman 2014). But this conditionality does not explain the diverging trend of normative and cognitive arguments by Democrats and Republicans in Congressional debates. It may explain why one of the two parties, the Democratic opposition, was open to embrace instrumental cognitive arguments in its legitimation of tax cuts, but it does not explain why Republican arguments were steadily drawn towards greater normative narratives and traditions over time.

This paper adopts a different approach to the analysis of discourses in the U.S. Congress. My research builds on Schmidt's insight (2016, 330) that the nature of 'coordinative discourse' through which policy makers communicate amongst each other in parliaments is fundamentally different from 'epistemic discourse', i.e. the communications between the epistemic community and the administration. Schmidt argues that a successful persuasion or legitimation of economic policy depends on the ability of the governing party to provide normative concepts during a coordinative discourse among policy makers. Policy makers in Congress are 'second-hand users' of economic theory and need to convince the opposition and voters of the programme. They therefore embed it into a broader normative framework which 'attach[es] values to political action and serve[s] to legitimize the policies in a program by speaking to the appropriateness as well as how policies resonate with a deeper core of principles and norms of public life' (Schmidt 2016, 324).

Schmidt argues that, if the governing party is successful in creating legitimacy of policy issues, these narratives transform into 'background ideas' which are particularly powerful precisely because they 'recede into the background, meaning that they become so accepted that their very existence may be forgotten, even as they may have come to structure peoples' thought about the economy, polity, and society' (Schmidt 2016, 328).

This theory resonates with those studies in historical institutionalism which suggest that Reagan's tax reforms originated from a quest for realignment of contentious traditional and economic conservative wings within the Republican Party, which Reagan and his administration achieved ideationally by the valorisation of tax cuts with traditional conservative values (Prasad 2012b; Zelizer 2003).

3. Data and methods

I base my analysis on a content analysis of U.S. Congressional debates in the House of Representatives, the Senate, the Ways and Means Committee and the Finance Committee. I selected two cases of tax reforms which uniquely qualify to demonstrate change in the American discourse on tax cuts and rising inequality: Reagan's ERTA, the H.R. 4242 of 1981, and George W. Bush's EGTRRA, the H.R. 1836 of 2001. These are two cases of extreme tax reforms with unprecedented characteristics at each point in time. Both took place in times of highly politicised economic crisis, inspiring lively debates about taxation, economic development and fairness in the media (McCall 2013) and among the general public (Campbell 2009; Lupia et al. 2007). Reagan faced a crisis of productivity decline, inflation and unemployment, whilst Bush was confronted with public concerns about the precursors of a bursting dot.com bubble which was slowing down economic growth and generating high unemployment rates (Morgan 2009, 125). It is important to mention here that in terms of budget pressures the two administrations faced greatly differing conditions. Reagan had to deal with an excessive sovereign deficit, whereas Bush faced a budget surplus. However, since my analysis is interested in interpretations of the economy and the public debate, which in both instances were concerned with limiting sovereign debt, including statements by high-ranking economists like Alan Greenspan in the media (Morgan 2010, 192), the comparison seems nevertheless fruitful.

My research strategy to investigate the process of building legitimacy for unequal tax cuts consists of two parts. In each section, I first determine the frames of legitimacy developed by administrations, advisers, speechwriters and Presidents which are expressed in central speeches to Congress. I then show the degree of persuasiveness of these concepts through a content analysis of the frames in the Congressional sphere. Similar studies equally interested in congressional framing chose this strategy in preference to analysing interviews (Cohen, Jones & Tronto 1997; Bandelj 2008; Somers & Block 2005) and I follow Bandelj (2008, 677-8) in her assessment that text analysis ensures full availability of statements and full reliability of the authenticity of statements compared to interviews.

For each reform, I investigated all content-related debates and hearings from the Congressional Records, that is, all documents in which policy makers from both parties presented arguments for or against one of the two reforms. Included are debates that preceded the roll call votes in the House and Senate and the committee meetings with experts, but excluded are the introduction of the bill and the signing of it into law. The relevant documents comprise two debates on each of the reforms which span about 100 pages of text. I complement these debates with one hearing on the Reagan reform and three hearings on the Bush reform which each comprise about 50 pages of text. These accumulate to about 600 pages of debates and hearings and represent the total population of my analysis. The majority of statements analysed were made by Democratic and Republican Congressmen and Senators in debates in the House and the Senate. But these representatives also contributed to debates in the hearings. My quantitative analysis excludes statements made by interest groups and experts in the hearings because the power of expert and interest group frames seems less a matter of frequency than a matter of authority. There are occasions in which one group raises an issue only once, but policy makers pick it up and later refer to it as a central argument in their debates. Thus my hermeneutic analysis includes expert and interest-group ideas and tests whether their arguments played a role in the rest of the debate, but does not count these contributions quantitatively.

4. A process of legitimating tax cuts in the US

Table 1 summarises the frequency of frames used by Republicans and Democrats in Congress. Contrasting the frames for the 1981 ERTA and the 2001 EGTRRA, it shows a shift from cognitive and normative frames among statements of Republican representatives and a shift from normative to cognitive arguments among Democratic representatives. This section will show that whenever one of the parties used normative arguments for or against tax cuts and drew on traditional values embedded in the debates of Congress and society, it was able to discredit the claims of the other party and generate legitimacy for its own claim. Specifically, we will trace the evolution of one specific background idea, market justice, which was formed on the ground of normative communication of the two parties.

Table 1 – Distribution of Justifications for and against Tax Cuts by Republicans and Democrats in 1981 and 2001 in Percent of Total Justifications

	1981		2001	
	Republicans	*Democrats*	*Republicans*	*Democrats*
Cognitive				
Theories of growth				
Incentives to work and save	27.27%	14.06%	9.73%	0.84%
Stimulate demand	0.76%	0.78%	0.88%	
Industrial policy	6.82%	4.69%		
Total	**34.85%**	19.53%	10.62%	0.84%
Budget constraints				
Balanced budget	6.82%	16.41%	8.85%	32.77%
Maintain social security		3.13%		29.41%
Total	34.09%	28.91%	34.51%	**62.18%**
Normative				
Vertical tax justice				
Ability to pay of income groups	1.52%	29.69%	10.62%	19.33%
Ability to pay of capital and labor		7.81%		4.20%
Total	1.52%	**37.50%**	10.62%	23.53%
Horizontal tax justice				
Universality	15.15%	2.34%	11.50%	9.24%
Horizontal tax equity	1.52%	3.91%	9.73%	
Compensate families	4.55%	0.78%	4.42%	2.52%

Total	21.21%	7.03%	**25.66%**	**11.76%**
Market justice				
Deservingness workers	3.79%		11.50%	1.68%
Small firm deservingness	3.03%	7.03%	7.08%	
Total	6.82%	7.03%	**18.58%**	1.68%
Procedural justice				
Wasteful government	7.58%		**25.66%**	
Special interests	19.70%	9.38%		
Total	27.27%	9.38%	25.66%	
Total frequency codes, N=	132	128	113	119

Percentage of justifications by coding category to total number of justifications of each party in each point in time for and against proposed government programmes; note: coding units may appear more than once if they refer to more than one justification. Source: own coding and calculations of the entire debates in Congress and the Senate on the ERTA tax reform of 1981 and the EGTRRA reform of 2001.

In 1981 the Democratic Party showed a strong reluctance to accept lower progressivity in the tax system. The argument that the Democrats used most in the 1981 ERTA debate, by a majority of 37.5 per cent of all frames used that year (see Table 1), insisted that the vertical tax justice principles of ability to pay among different income groups and among capital and labor were the cornerstone of American tax justice and suggested that the tax cut planned by Reagan consequently limited social justice in American society. Invoking vertical tax justice was particularly convincing in Congress at the time because the Reagan administration and the Republican Party justified lower progressivity in the tax system solely through cognitive arguments adapted from supply-side theory. The argument used most by Republicans in Congress was to enhance incentives to work and save by giving greater cuts to higher incomes. The Party also adopted the reasoning that an unequal cut at the top was fiscally responsible, since greater capital formation and job growth resulted in greater tax revenues, an argument which broadly reflected so-called Laffer curve reasoning in supply-side economics. With 34.85 per cent of all of the Republican statements in 1981 referring to incentives, this concept clearly dominated Republican frames that year.

Evidently, the cognitive growth reasoning for lower progressivity was not persuasive as a concept for unequal tax cuts. In the months after passing ERTA, Democrats, trade unions, civil rights groups and women publicly protested against the programme and generated a government crisis. In the years after this experience, the Republican Party and the Reagan and George W. Bush administrations adopted new legitimation approaches to sell tax cuts at the top which successfully drew on the background idea of market justice and tax cuts. In a first response to the protests, the government turned to public choice theory, invoking the traditional anti-government and anti-tax sentiments of conservative American voters and Congressmen. This way the Presidential speeches discredited political involvement in the distribution of incomes through redistribution and the involvement of unions in tax policy and questioned the ability to pay concept. In a second step, the administrations incorporated the demand of the opposition to shift the tax cut away from corporations and give greater provisions to lower incomes which was embedded in horizontal tax justice arguments. Finally, policy makers framed the reform more generally as pertaining to market justice and genuine meritocracy in which every American individual could potentially gain from cuts when they were entering the market as individual entrepreneurs. The notion of universality was increasingly adopted by the Democrats in their argumentation for and against tax cuts. By the end of this process, in 2001, the Democrats rejected tax cuts with less vigour and on the grounds of defensive cognitive arguments. The frequency of vertical tax justice arguments among Democrats dropped to 23.53 per cent. Arguments of universality became more important and the majority of statements, 62.18 per cent, went to the case for the maintenance of a balanced budget.

4.1. Instrumental rationality and normative opposition in 1981

Reagan's approach to economic policy has often been characterised as a revolution of the supply-side not only because of the revolutionary content of Reagan's reforms, but also because of the deeply technical language and the direct rhetorical adaption of a supply-side reasoning (Bartlett 1981; Bartlett 2003; Roberts 1984). Given the seminal material and ideational relevance of Reagan's tax cut, it is surprising that the secondary literature has paid little attention to the serious popularity crisis which the Reagan administration faced during the year of 1981. This crisis of government mostly resulted from the administration's focus on cognitive arguments around incentives to justify tax cuts, which was fiercely rejected by a number of groups in the constituency.

Reagan came to office during a severe productivity crisis and two oil crises which ignited unprecedented levels of inflation, unemployment and sovereign debt.[4] Nevertheless considering that the candidate had derived much of his political capital from traditional conservative frames of anti-government, anti-union and anti-communist rhetoric it remains curious how much his economic advisers impressed their instrumental reasoning on his public statements. During Reagan's term as Governor of California, his conservative narratives contributed to a tax revolt that helped him win the Proposition 13 referendum and cap property taxes (Cannon 2003, 108). In what became his most technical speech, *America's New Beginning: A Program for Economic Recovery*, delivered in early 1981, Reagan elaborated on this plan for 'sound' economic policy, envisioning a general liberation of market transactions from government intervention through spending, taxation and monetary policy:

> The plan is based on sound expenditure, tax, regulatory, and monetary policies. It seeks properly functioning markets, free play of wages and prices, reduced government spending and borrowing, a stable and reliable monetary framework, and reduced government barriers to risk-taking and enterprise. This agenda for the future recognizes that sensible policies which consistently applied can release the strength of the private sector, improve economic growth, and reduce inflation (Reagan 1981, 1).

Instead of using the political leverage of the popular Kemp-Roth plan of the '10-10-10' across-the-board income tax cuts, which middle class voters supported as a way to reduce the burden of bracket creep, high inflation and high taxes (Prasad 2012b), Reagan lectured Congress and the public on the Laffer-curve relationship. He argued that tax cuts would incentivise investments, savings and work and thereby reinvigorate productivity, enhance capital formation and restore government revenue.

The President adopted this reasoning with regard to incentives to work and save – though without mentioning the reduction in progressivity – and referred to the reduction of 'federal personal income tax rates by 10 percent a year for 3 years in a row' as the most important feature of his economic policy plan:

> We must remember a simple truth. The creativity and ambition of the American people are the vital forces of economic growth. The motivation and incentive of our people – to supply new goods and services and earn additional income for their families – are the most precious resources of our Nation's economy (Reagan 1981, 1-2).

A smaller interference of the government with the economy through tax cuts would liberate 'economic choices - involving working, saving, and investment' which would now be 'based primarily on the prospect for real rewards' (Reagan 1981, 3).

In Congress the Democrats overtly rejected Reagan's reasoning on both economic-cognitive as well as moral-normative grounds. Dan Rostenkowski, chair of the Ways and Means Committee refused to design a bipartisan tax plan with the Republicans and proposed an alternative, which was jointly promoted with the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO). The alternative proposal included a greater focus of tax cuts on the middle classes and plans for a reindustrialisation of the economy through subsidies and tax cuts for labor-intensive small firms instead of heavy-capital corporations. It argued that full-employment could still be achieved by subsidising small high-tech firms with the high potential for growth. Lane Kirkland, the president of the AFL-CIO, and Dan Rostenkowski argued in Congress that a reindustrialisation was also socially desirable because it would allow for the maintenance of vertical tax justice, i.e. the ability to pay among income groups and among capital and labour income. Reagan's plan to cut taxes for corporations and higher incomes was considered economically unsound as it concentrated tax cuts on 'healthy, growing corporations' which would have made investments in equipment anyway. Instead funds should get distributed to 'less capital-intensive, generally small businesses' which had been 'crowded out in the tax-saving orgy by large capital intensive firms in older industries' (Kirkland 1981, 4-6).

Democrats in Congress predominantly opposed Reagan's tax plan on the grounds of traditional normative arguments for social justice, invoking the ability-to-pay principle which had structured American tax culture since the implementation of the income tax system in the 19th century (Mehrotra 2014). The alternative tax plan demanded a much smaller income tax cut and envisioned an extension of Keynesian demand stimulation through a concentration of cuts on the middle class.

> What is an equitable tax cut? In 1981, the social security tax rate for employees rose from 6.15 to 6.65 percent [...]. In addition, inflation is pulling taxpayers into higher tax brackets and causing their income to rise at a faster rate than inflation. The most reasonable standard for a fair tax cut is that it at least compensate taxpayers for these increased tax burdens, so that the proportion of income paid in individual income and employee social security taxes is reduced below its 1980 level for the vast majority of American households (Rostenkowski 1981, 18046).

Rostenkowski was furious about the fact that the administration only recently 'enacted billions of dollars of spending cuts whose burden will fall on the working poor. Must we also make them pay income tax as well?' (Rostenkowski 1981, 18046). Kirkland's main message in a seminal testimony to the Ways and Means Committee was that 'the President's tax package is grossly unfair and much too costly.' Like many of his colleagues from the Democratic Party, he invoked the concept of ability to pay when arguing that the President's individual income tax reduction represented a 'façade of even-handedness implied in the 10% per year across-the-board cuts' which 'quickly disappears upon closer inspection' (Kirkland 1981, 1). Only a 'progressive cut would be fair', Kirkland argued, because for 15 million low-income earners 'taxes went up this past January as a result of the Social Security increases; this [low income] group will be among the first to feel the impact of the Administration's cuts in social programs' (Kirkland 1981, 10).

Given the seminal relevance of the Reagan tax cut in American history of economic policy and the many scholarly accounts which have investigated the cuts, it is surprising that few accounts describe the fierce initial resistance of the Democrats against diminished social standards which found support among the trade unions, women's groups and civil rights groups. The Democratic demands for social justice and the public debate that developed alongside them in the media and in civic organisations inspired the formation of the Budget Coalition – a coalition spearheaded by the AFL-CIO, the NAACP, the Sierra Club, the League of Women Voters (LWV) and related progressive groups demanding tax justice. This Coalition organised the Solidarity Day of September 1981 which remains one of the most sizeable marches on Washington since the legendary civil rights marches (Minchin 2015, 75). This march and the general disapproval of a decline in social standards among the public spurred a serious popularity crisis for the Reagan administration which eventually led to a significant tax increase in 1986.

4.2 Normative legitimation and growing consensus since 1982

> My mother is a doctor's daughter. She went to nurses training. She takes vitamins because she knows better than most of us how good vitamins are in keeping good health. My son, age 7, takes vitamins because they are shaped like cute little animals [...]. If vitamins tasted awful, my mother would still take them, but my son would strongly object [...] most people don't take easily to misery. [Welfare and tax cuts are] not a strong selling point (Blackwell 1981, 1).

A paradigm shift in economic policy significantly depends on a government's ability to generate normative legitimation of a new paradigm. This is particularly the case for a paradigm shift from redistribution and social justice to income inequality and freedom of markets (Schmidt 2016). The statement above is a testimony to the popularity crisis of the Reagan administration and its dependence on normative narratives to set in motion a process of acceptance of the new economic realities. It is one piece of a longer correspondence between Morton C. Blackwell, a special adviser to Reagan and a liaison expert for conservative interest groups, with Elizabeth Dole, the head of the Office of Public Liaison (OPL), and Max Friedersdorf, an assistant to the President for legislative affairs. The three policy makers had analysed opinion polls, the media debate and a US$10 million campaign against the economic programme which had been launched against the government by 146 organisations and was supported by film stars such as Jane Fonda and financial investors such as Howard Ruff. The administration team concluded that the rhetoric and moral orientation of Reagan's tax policy needed to change (Friedersdorf

1981; Blackwell 1981). Accordingly, in 1982 Ben T. Elliott, a former CBS News producer, was hired as the head of four new speechwriters, who collectively tried to shift the rhetoric in an 'emotional' direction (Boyd 1986). The consequence of this deliberation was a reorientation to new narratives.

This was the moment when the frames used by the administration began to shift from cognitive arguments of supply-side growth to normative arguments of universality. Universality meant that tax cuts should be structured in a way that a maximum number of American citizens would benefit from them materially. In this sense, the concept was used as a response to the critique of the opposition which had raised the issue of vertical justice and asserted that only a small group of individuals and corporations benefitted from the ERTA in 1981. The government turned down the demands for vertical justice and emphasised that horizontal justice was achieved by giving all income groups tax cuts. For this purpose, the concept of universality was reinvigorated from traditional American debates about democracy and inclusiveness of the public sphere (Zerilli 2012, 16-17). In a second step, the government incorporated the demand of the opposition to repeal the tax cuts for heavy capital, arguing that they implemented genuine meritocracy in which every American could excel as a small entrepreneur. The effect of this reasoning was that concepts of justice were shifted from the political realm to the economic realm, emphasising market justice over redistributive justice.

4.2.1 Universality and horizontal tax justice

The most important legitimation narrative for tax cuts used by Reagan after 1982 and George W. Bush in 2001 was universality in the claim that every hard-working American received a benefit and a reward for their efforts in the market. This concept of universal tax cuts integrated democratic values of inclusiveness and equal treatment for all American citizens and economic moral values of 'deservingness' and the reward of tax cuts for productive individuals. The two administrations thereby invoked the traditionally strong notion of meritocracy in the 'American Dream' narrative and the political and economic values associated with that concept. Those values included equal participation and an attainment of 'virtue and fulfillment' through self-reliance by which each individual contributed to a greater common good and the well-being of overall society (Hochschild 1995: 18, 124). By aligning the political value of equal rights for all citizens and the reward of success in the market economy with tax cuts, policy makers valorised greater levels of income inequality and discredited the concept of vertical tax justice and ability to pay.

In essence, then, Reagan and Bush integrated the values of universality and the equal treatment of all Americans in their legitimation of horizontal tax justice in the TRA of 1986 and the EGTRRA of 2001. Even though the two tax cuts reduced the top personal income tax rate from 50 to 28 per cent and from 39.6 to 36 per cent respectively, alongside capital gains and estate tax cuts which benefited top incomes, the speeches capitalised on normative frames of universal tax cuts for every hard-working American. The following quote exemplifies Reagan's new normative emphasis on universal tax relief from inflationary pressures and excessive increases in taxation through a renewed tax cut.

> I'd like to speak to you tonight about our future, about a great historic effort to give the words 'freedom,' 'fairness,' and 'hope' new meaning and power for every man and woman in America. Specifically, I want to talk about taxes, about

> what we must do as a nation this year to transform a system that's become an endless source of confusion and resentment into one that is clear, simple, and fair for all – a tax code that no longer runs roughshod over Main Street America but ensures your families and firms incentives and rewards for hard work and risktaking [sic!] in an American future of strong economic growth (Reagan 1985).

The concepts of universality and horizontal tax justice increasingly substituted vertical tax justice arguments among Democratic Congressmen. Democrats in effect adopted the Republican notion of universality. In an effort to discredit the government rhetoric, Democrats argued that the tax cut was not going to all Americans. This alignment of concepts had the unintended consequence that the Democrats ceased focusing on ability to pay. The share of vertical tax justice arguments fell by about 10 percentage points between 1981 and 2001, while the share of horizontal tax justice arguments increased by 3 percentage points. The following statement by Max Baucus, Democratic chairman of the Senate Finance Committee in 2001, is an example for this endorsement. In his statement, Baucus endorsed the EGTRRA, a sizeable tax cut that served the principle of universality, arguing that all Americans receive some tax relief:

> My fifth question, is whether the tax cut is fair and whether it is affordable. I support a tax cut, a large tax cut, a tax cut that does go, in fact, to all taxpayers. I believe the President deserves considerable credit for putting a tax cut high on the agenda. But, clearly, we also have to make sure that the tax cut is consistent with other priorities, and there are a lot of other very demanding priorities. I have mentioned a few. We have to make sure that the cut is really fair to all Americans (Baucus 2001, 3-4).

4.2.2 Market justice and the small firm

Another central act of legitimating tax cuts in Congress was the incorporation of the Democratic demand to shift the focus of tax cuts from heavy capital firms to small high-tech firms and thereby achieve greater justice within markets. Reagan's first reform included the Accelerated Cost Recovery System (ACRS) which predominantly benefitted large corporations in capital-intensive sectors with the intention to revive the steel and manufacturing sectors. During the process of passing ERTA, the administration's attempts to gain support from all business sectors had resulted in provisions to many big business groups, including the oil sector (Martin 1991, 129). These provisions had been subject to criticism from a range of constituent groups including Democrats and economically conservative Republicans who demanded a retreat of the state from supporting big business and special interests. In the new tax programme *Tax Reform for Fairness, Simplicity and Economic Growth* (1984) and in *The President's Tax Proposal* (1985), which culminated into the 1984 Tax Equity and Fiscal Responsibility Act (TEFRA) and the Tax Reform Act (TRA) of 1986, the Reagan administration closed loopholes and cut depreciations for heavy capital, arguing that it shifted tax cuts to small businesses instead.

At the core of the argument of genuine meritocracy stood the concept of 'base-broadening' which combined the ideal of giving equal opportunities to all American firms and eliminating the influence of government in the economy. The basic idea stemmed from economists George Break, Joseph Pechman and Richard Musgrave who published early ideas of base-broadening in public finance, arguing on the basis of Henry Simons's (1938) book, *Personal Income Taxation,* that government intervention in the private sphere could be curtailed through a 'comprehensive tax base' which signalled horizontal tax justice and market justice and had the potential to replace the normative concept of vertical tax justice. In practice, the Reagan administration used this general principle and valorised tax cuts for small businesses through top income tax reductions while simultaneously raising taxes for heavy capital. Even though the TRA of 1986 further reduced the top individual tax rates from 50 to 28 per cent, the Democrats and the AFL-CIO supported these cuts because of the loophole closing and the Earned Income Tax Credit (EITC) extensions that were added for the very small incomes. In their eyes, these provisions corrected 'some of the excesses of the 1981 corporate tax cuts' (Kirkland 1985, 2).

At the same time, the narrative of market justice was now used more often among Republican Congressmen. They argued that tax cuts for small firms enhanced the opportunities for every American to open up a small firm or a restaurant around the corner and thereby become a self-sufficient entrepreneur. When George W. Bush came to office and presented his 2001 tax cut, he built on this narrative, arguing that his top personal income and estate tax cuts rewarded small businessmen for their self-sufficiency, creativity and motivation:

> All across America, creative people are opening new restaurants, starting specialty manufacturing firms, and leaving big accounting firms to strike out on their own. These are American risk-takers and entrepreneurs. I have tremendous admiration for what they're doing. And my Administration [sic] is standing <u>with</u> them and not against them. We are committed to making their lives easier, not harder (Bush 2001).

4.2.3 The balanced budget and excessive government

The third concept which played a crucial role in the evolution of normative sentiments was the concept of the wasteful or excessive government. This concept stemmed from theoretical developments in public choice and public finance theory during the 1960s and 1970s which constitute the philosophical arms of rational choice and institutional economics. The two most notable theorists in this field, James Buchanan and Richard E. Wagner, in essence posited a theory of 'democratic failure' in which office-seeking politicians served the increasing demand of voters for more spending. The remedy to this crisis was to 'starve the beast' through radical tax cuts (Streeck 2014, 145). This normative theory of democratic governance made its way into the polity after the 1970s, together with supply-side economics (Blyth 2002), but had much greater effects on the coordinative tax cut discourse in Congress. Republican Congressmen in particular adopted the concept of special interests to argue that tax cuts would limit the influence of lobbying efforts by trade unions.

Among the Democrats, vertical justice concepts of redistribution receded to the background of the debate. The majority of representatives in both the House and the Senate supported a tax cut, but argued that they would like it to be sustainable in terms of deficit increases. Senator John Kerry from Massachusetts argued that the Republicans 'should not be bragging on [their] role in the budget of 1981' and that the Democrats had 'spent 15 years trying to dig out from that' (Kerry 2001, 27). Keeping the budget balanced was the Democrats' most important concern about the 2001 EGTRRA tax cut which dramatically reduced vertical tax redistribution. Even though the Democrats coupled the ideal of keeping the budget balanced with the intention to maintain welfare spending, pensions and Medicare for current recipients and the retiring baby boomers, they no longer relied on the normative argument of justice. One illustrative example is Senator Conrad who argued that 'our top priority here ought to be to continue to get this long-term or this publicly-held debt paid before the baby boomers start to retire' (Conrad 2001, 27).

5. Conclusion

The question whether ideas play a role in economic policy making has attracted a lot of attention in the past twenty years of political science research and sociological studies of paradigm shifts. What we have learned from those studies is that epistemic discourses between economists, think-tanks and policy circles were a central feature of the process of radical transition from the Keynesian post-war order to the supply-side paradigm. Epistemic communication also played a critical role in the transfer of ideas of incentives to work and save to the policy circles of Ronald Reagan in the 1980s. However, this paper asked what happened once policy makers adapted the new economic reasoning from supply-side economists, conservative think-tanks and the financial press. The main finding of my content analysis of Congressional debates about the Reagan and George W. Bush tax cuts is that the discursive thrust of a paradigm critically depends on policy makers' ability to develop a normative frame for the new instrumental reason they intend to apply to economic policy making.

The main purpose of this paper was to trace the process of coordinative communication of the government and parliament on radical tax cuts for top incomes, capital gains, corporations and estate taxes in the United States over time, specifically between 1981 and 2001. It followed Vivien Schmidt's (2016) thesis that instrumental reason plays an important role in transferring a new economic theory to particular policy circles, but that the implementation of a new policy programme critically depends on a second discursive step, the embedding of these cognitive arguments into normative frames. She argued that a paradigm can only come to life if it convinces larger groups of parliamentarians by normatively framing the new policy instruments 'with deeper core principles of public life' (Schmidt 2016, 324). This is exactly what this paper found for the tax cuts for higher incomes in the United States.

The Keynesian paradigm of the post-war consensus of capital and labour did provide such a coherent framework of economic instruments and normative values, which is why it was difficult for the Republicans to counter the Democratic arguments against unequal tax cuts. In 1981, when the Republicans predominantly worked with the cognitive frames of giving incentives to work and save, the Democrats refuted those cognitive arguments with social justice and ability-to-pay arguments and coupled these with ideas about economic growth, industrial policy and consumption stimulation. The rejection of the new paradigm sparked resistance in parliament and civil society with the consequence that Reagan had to repeal parts of his tax cut in two follow-up reforms.

I find that the consolidation of the new supply-side paradigm of tax cuts for higher incomes critically depends on normative arguments to persuade large groups of parliamentarians. This finding speaks against the existing arguments in historical institutionalism and economic sociology. Both place a strong emphasis on the growing authority of economists through their powerful networks in policy circles and the snowball effects of knowledge in academic circles. However, the pervasiveness of the Keynesian paradigm only began to crumble when the Reagan government embedded the new supply-side theorems in a bigger normative frame of government waste and horizontal tax justice. By integrating the concept of government waste, a concept that appealed to the traditional American values and anti-government sentiments, the Reagan and Bush administrations were able to discredit one of the key pillars of the Keynesian paradigm, namely, government intervention and redistribution through the state. By incorporating the demands of the opposition to close loopholes for corporations and compensate poor families for the highly unequal tax cuts, the administrations of Reagan and Bush incorporated the case for enhancing horizontal tax justice which both parties agreed on increasingly over time. And, finally, the administrations framed the tax cuts generally in terms of market justice to argue that tax cuts would help all sections of society by enhancing the access to markets for individual entrepreneurs and the working poor.

This finding generates vantage points for future research that would investigate the interrelations of normative frames with economic change and voter sentiments. First, there is the point that increasing agreement on normative frames critically depended on changing ideas among Democrats. It would be interesting to find out what role, if any, the movement of the New Democrats and the Clinton administration played in transferring the new paradigm from the Reagan to the George W. Bush era. Studies on the politics of deficits have hinted at the fact that the increasing retreat of the Democratic Party with regard to balancing the budget stemmed from the increasing budget pressures on US sovereign debt and the potentially related three consecutive defeats of the Democrats in Federal elections after 1981 (Pierson 1998; Streeck 2011). A second avenue of future research could test whether voters were influenced by the changing narratives or whether voter sentiments induced the growing consensus of Republicans and Democrats on concepts of horizontal tax justice and balancing the budget.

Endnotes

1 The total share of tax paid by the top 0.1% income group dropped from 91% in 1960 to 28% in 1988, increased slightly under Clinton and then again fell to 35% in 2001 under George W. Bush (Piketty & Saez 2007, 3). Piketty and Saez measure this 'tax share' as the effective average tax burden for each income group on the basis of individual, estate, corporate and social security taxes paid in total income accumulated from labor, entrepreneurial activity and capital income.

2 Fraser's account (2015) is part of a theoretical movement in critical theory which advances updates of debates on the *legitimation crisis* of 1960s to 1980s to contemporary specificities of the crisis of democratic capitalism (Habermas 1976; O'Connor [1973] 2002; Offe 1987; Offe [1972b] 2006).

3 Martin (1991) showed in her seminal study how the Reagan administration acted as an ideational entrepreneur who had to sell the tax reforms to business groups in order to get it passed in Congress.

4 Unemployment soared to 6.5 percent, inflation to 11 percent and sovereign debt to $712 billion by 1980 (1991, 239; Congressional Budget Office 2016).

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